

Message Text

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64

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COMICEDEFOR

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AMEMBASSY COPENHAGEN

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USMISSION OECD PARIS

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UNCLAS REYKJAVIK 1632

COPENHAGEN FOR FISHERIES ATTACHE

EO 11652: NA

TAGS: ECON EFIN IC

SUBJECT: RECENT ECONOMIC INDICATORS GIVE MIXED PICTURE

1. SUMMARY: SEVERAL ECONOMIC INDICATORS HAVE BECOME AVAILABLE SINCE THE NEW GOVERNMENT ANNOUNCED ITS ECONOMIC PROGRAM LAST OCTOBER. ACCORDING TO THE LATEST FIGURES INTERNATIONAL RESERVES HAVE CHANGED LITTLE, COST OF LIVING CONTINUES TO RISE, AND THE BALANCE OF TRADE DEFICIT GROWS. END SUMMARY.

2. PERHAPS THE MORE SIGNIFICANT ECONOMIC STATISTIC TO BE RELEASED RECENTLY IS THE INDEX FIGURE PUBLISHED BY THE CONSUMER PRICE INDEX BOARD FOR THE BEGINNING OF UNCLASSIFIED

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NOV 1974. THE COST OF LIVING INDEX FIGURE IS

342 OR 45 POINTS ABOVE THE AUGUST FIGURE, A 15.4 PERCENT INCREASE. FOR THE PERIOD NOV 1973 TO NOV 1974 THE INDEX MOVED FROM 226 TO 352, AN INCREASE OF 51.32 PERCENT.

3. ACCORDING TO ARTICLE 5 OF THE PROVISIONAL WAGE LAW PROMULGATED IN SEPTEMBER, WAGE EQUALIZATION EOMPENSATION DETERMINED IN ACCORDANCE WITH ARTICLES ONE THROUGH FOUR SHALL BE REVIEWED IF THE COST OF LIVING INDEX EXCEEDS 358 POINTS IN THE EFFECTIVE PERIOD OF THIS LAW (THAT IS, BEFORE MAY 31, 1975). THE CITED ARTICLES REFER TO WAGE PAYMENTS FOR LOW INCOME EMPLOYEES AND FARM WORKERS. A FIVE PERCENT INCREASE WILL PUT THE INDEX ABOVE THE CEILING AND BRING ABOUT A REVIEW OF THE CITED ARTICLES, PRESUMABLY TO INCLUDE CONSULTATIONS WITH THE PARTIES TO THE LABOR MARKET AS PROVIDED IN ARTICLE TWO. AN UNOFFICIAL ESTIMATE PUTS THE INDEX AT 352 AS OF DEC 3.

4. THE STATISTICAL BUREAU OF ICELAND HAS PUBLISHED PRELIMINARY FIGURES ON THE BALANCE OF TRADE THROUGH OCTOBER 1974. THE TRADE DEFICIT FOR THE FIRST TEN MONTHS IS 14 BILLION KRONUR (THE KRONUR THIS YEAR HAS RANGED FROM 85 TO 118 PER US DOLLAR.) DURING AUGUST A SUSPENSION OF FOREIGN EXCHANGE TRADING HELD DOWN IMPORTS AND THE DEFICIT FOR THAT MONTH WAS NIL. DESPITE THE 17 PERCENT DEVALUATION ON AUG 29, SEPT AND OCT IMPORTS EXCEEDED EVERY MONTH BUT JUNE, WHICH ALONE ACCOUNTED FOR 3.4 BILLION OF THE DEFICIT. IN SEPTEMBER THE DEFICIT WAS 2.5 BILLION AND IN OCTOBER OVER 3 BILLION.

5. THE NET FOREIGN EXCHANGE POSITION OF THE BANKING SYSTEM IMPROVED SLIGHTLY (BY 68 MILLION KRONUR) IN OCTOBER OVER SEPTEMBER. NET HOLDINGS ARE 1,361 MILLION KRONUR AND REPRESENT THE FIRST INCREASE SINCE JUNE 1974. GROSS RESERVES ARE 4,921 MILLION KRONUR, DOWN FROM 5,126 MILLION KRONUR FOR SEP AND SLIGHTLY EXCEED THE MONTHLY AVERAGE OF 4 BILLION KRONUR IN IMPORTS FOR THE FIRST TEN MONTHS OF 1974.

6. COMMENT: IT IS OF COURSE TOO EARLY TO EXPECT A TURN
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AROUND IN THE ECONOMY AND IN FACT THE GOVERNMENT ECONOMISTS HAVE GOOD REASON TO EXPECT THAT INFLATION WILL CONTINUE TO MOVE UPWARD IN THE FIRST QUARTER OF 1975 BEFORE THERE IS ANY IMPROVEMENT. HOWEVER, WHAT SOME FIGURES SUGGEST (E.G. THE COST OF LIVING INDEX) IS THAT THE ECONOMISTS UNDERESTIMATED THE PROBLEM IN SETTING THE INDEX CEILING FOR REVIEW OF THE WAGE LAW. DEMAND MANAGEMENT MEASURES ARE HARD ENOUGH TO WORK OUT UNDER THE BEST

POLITICAL CONDITIONS. IN A COALITION SYSTEM WHICH IS
DEPENDENT ON CONSIDERABLE GOOD WILL, THESE MEASURES
BECOME INCREASINGLY DIFFICULT TO APPLY. FOR ANOTHER
THING, THERE IS SOME CONFUSION RESULTING OVER THE PROJECTED
SIZE OF THE REDUCTION OF THE CURRENT INFLATION GROWTH
AS BOTH YEAR TO YEAR AND ANNUAL AVERAGE COST OF LIVING
RATES ARE BEING CITED (25 AND 15 PERCENT RESPECTIVELY).
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